

KETCHUM PUBLIC WORKS AUTHORITY  
KETCHUM, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
JUNE 30, 2012 AND 2011

RALPH OSBORN  
CERTIFIED PUBLIC ACCOUNTANT  
500 SOUTH CHESTNUT  
P.O. BOX 1015  
BRISTOW, OK 74010-1015

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Ketchum Public Works Authority  
Ketchum, Oklahoma

I have audited the accompanying financial statements of the business-type activities of Ketchum Public Works Authority, Ketchum, Oklahoma as of and for the year ended June 30, 2012 and 2011, which collectively comprise Ketchum Public Works Authority's basic financial statements. These financial statements are the responsibility of Ketchum Public Works Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Ketchum Public Works Authority as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows where appropriate, thereof, in conformity with accounting principles generally accepted in the United States of America.

Ketchum Public Works Authority has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statement.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 11, 2012, on my consideration of Ketchum Public Works Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.



Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
October 11, 2012

KETCHUM PUBLIC WORKS AUTHORITY  
KETCHUM, OKLAHOMA  
STATEMENT OF NET ASSETS  
JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 611,053	\$ 407,693
Investments	569,676	300,995
Accrued Interest Receivable	450	450
Prepaid expense	4,621	4,013
Accounts receivable, net	<u>146,605</u>	<u>118,422</u>
Total current assets	<u>1,332,405</u>	<u>975,573</u>
Restricted assets:		
Restricted cash and cash equivalents	-	-
Restricted investments	114,324	114,324
Utility Deposits	<u>65</u>	<u>65</u>
Total restricted assets	<u>114,389</u>	<u>114,389</u>
Non-current assets:		
Capital assets:		
Land	355,157	306,659
Other capital assets, net of accumulated depreciation	<u>3,364,396</u>	<u>3,482,266</u>
Total non-current assets	<u>3,719,553</u>	<u>3,788,925</u>
 Total assets	 <u>5,166,347</u>	 <u>4,878,887</u>
 <b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	8,238	6,253
Payroll liabilities	97,599	63,617
Accrued interest payable	1,525	1,444
Meter deposits payable	164,071	156,219
Due to volunteer fire department	2,250	2,270
Notes payable, current	<u>73,976</u>	<u>70,695</u>
Total current liabilities	<u>347,659</u>	<u>300,498</u>
Non-current liabilities:		
Notes payable, non-current	<u>1,360,202</u>	<u>1,433,837</u>
Total non-current liabilities	<u>1,360,202</u>	<u>1,433,837</u>
 Total liabilities	 <u>1,707,861</u>	 <u>1,734,335</u>
 <b>NET ASSETS</b>		
Nonspendable	2,271,520	2,249,680
Restricted for debt service	114,324	114,324
Assigned for meter deposits	160,000	160,000
Unassigned	<u>912,642</u>	<u>620,548</u>
 Net assets	 <u>\$ 3,458,486</u>	 <u>\$ 3,144,552</u>

See accompanying notes to financial statements.

KETCHUM PUBLIC WORKS AUTHORITY  
KETCHUM, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012 AND 2011

	2012	2011
<u>OPERATING REVENUES</u>		
Water revenue	\$ 1,351,465	\$ 1,208,387
Sewer revenue	76,726	77,664
Taps and penalties	52,966	55,810
Other revenue	6,067	3,768
Total operating revenues	1,487,224	1,345,629
<u>OPERATING EXPENSES</u>		
Auto, Truck and Equipment Expenses	34,698	31,769
Chemicals	59,106	75,121
Depreciation Expense	227,593	212,330
Engineering Fees	18,096	16,876
Insurance	19,353	19,866
Laboratory tests, permits and dues	29,880	28,321
Legal and accounting	15,841	8,370
Office supplies and expenses	18,196	17,568
Operating supplies	699	-
Taps and bores	9,823	6,851
Repairs and replacements	73,490	49,076
Taxes	18,991	27,981
Health Insurance	64,274	58,864
Retirement	52,674	48,857
Salaries	337,965	339,396
Training	330	160
Uniforms	4,000	3,663
Utilities and telephone	102,603	102,224
Water purchases	26,957	26,666
Total operating expenses	1,114,569	1,073,959
Operating income (loss)	372,655	271,670
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Donations	-	542,000
Investment income	13,602	9,775
Interest on notes payable and fiscal fees	(72,323)	(75,143)
Total non-operating revenue (expenses)	(58,721)	476,632
Net income (loss)	313,934	748,302
Total net assets, beginning	3,144,552	2,396,250
Total net assets, ending	\$ 3,458,486	\$ 3,144,552

See accompanying notes to financial statements.

KETCHUM PUBLIC WORKS AUTHORITY  
KETCHUM, OKLAHOMA  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Cash received from customers	\$ 1,466,873	\$ 1,327,489
Cash paid to employees	(439,922)	(485,780)
Cash payments to suppliers for goods and services	<u>(411,695)</u>	<u>(398,566)</u>
Net cash provided (used) by operating activities	<u>615,256</u>	<u>443,143</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(191,169)	(321,046)
Sale of capital assets	32,948	-
Proceeds from notes payable	-	201,655
Interest paid on notes payable	(72,242)	(75,143)
Principal paid on notes payable	<u>(70,354)</u>	<u>(66,760)</u>
Net cash (used) by capital and related financing activities	<u>(300,817)</u>	<u>(261,294)</u>
Cash flows from investing activities		
Receipt of interest and dividends	13,602	9,775
Transferred (to)/from investments	<u>(124,681)</u>	<u>(160,001)</u>
Net cash provided (used) by investing activities	<u>(111,079)</u>	<u>(150,226)</u>
Net increase in cash and cash equivalents	203,360	31,623
Cash and cash equivalents, beginning	<u>407,693</u>	<u>376,070</u>
Cash and cash equivalents, ending	<u>\$ 611,053</u>	<u>\$ 407,693</u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities		
Operating income (loss)	\$ 372,655	\$ 271,670
Depreciation	227,593	212,330
(Increase)/Decrease in Current Assets		
Accounts receivables, net	(28,183)	(17,961)
Prepaid expenses	(608)	213
Increase/(Decrease) in Current Liabilities		
Accounts payable	1,985	(10,682)
Accrued payroll liabilities	33,982	(9,349)
Due to volunteer fire dept	(20)	179
Sportsman cottages deposits	-	(13,750)
Meter deposits	7,852	10,493
Net cash provided by operating activities	<u>\$ 615,256</u>	<u>\$ 443,143</u>

See accompanying notes to financial statements.

KETCHUM PUBLIC WORKS AUTHORITY  
KETCHUM, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ketchum Public Works Authority, Town of Ketchum, Oklahoma (the "Authority") was established as a public trust on behalf of the Town of Ketchum, Oklahoma as the beneficiary. The trust is to furnish and supply to the inhabitants, owners, and occupants of property, and to industrial, commercial and mercantile establishments and enterprises within the corporate proximity thereto, and to the beneficiary and other governmental agencies, utility services and facilities for all purposes. The trust is to conduct all business related to providing necessary physical facilities; to fix and collect fees for the services provided, to arrange financing for the required fund and to conduct all business necessary for normal operations to the Authority. The Authority has provided and is currently operating a water works and distribution system and a sewer system.

Government-Wide and Fund Financial Statements

The Authority is a special purpose governmental entity engaged only in business type activities. The Authority prepares financial statements required for enterprise funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Authority's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The financial statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported in financial statements include revenues and expenses related to the primary, continuing operations of the Authority. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

FUND TYPES AND MAJOR FUNDS

The Authority reports all activity within a single fund.

Accounts Receivable

Accounts receivable consists of primarily of charges for water sales and sewer services. Management considers the accounts to be fully collectible.

KETCHUM PUBLIC WORKS AUTHORITY  
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Prepaid Expenses

Prepaid expenses represent the unexpired premiums on general liability and workman's compensation insurance policies.

Investments

The Authority follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The Authority considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Investment reported in the financial statements are certificate of deposits.

Capital Assets, Depreciation, and Amortization

The Authority's property, plant, equipment, and infrastructure with useful lives of more than one year and costing more than \$500 are stated at historical cost or at estimated historical cost for those items not previously reported. The Authority maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The Authority generally capitalizes assets with as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method with one-half year depreciation in the year acquired and one-half in the year of disposal. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	20 - 50 years
Water and sewer system	20 - 50 years
Machinery, and equipment	5 - 10 years
Improvements	10 - 20 years

Compensated Absences

Full-time employees receive twenty-five days of paid time off per year. Paid time off can be accumulated up to a maximum of sixty days.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Restricted net assets represent tentative plans for future use of financial resources.

KETCHUM PUBLIC WORKS AUTHORITY  
KETCHUM, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the Authority will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Authority, and are held by counterparty or the counterparty's trust department but not in the name of the Authority. The Authority's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2012, all of the Authority's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The Authority had deposits at financial institutions with a carrying amount of approximately \$1,295,055 at June 30, 2012. The bank balance of the deposits at June 30, 2012 was approximately \$1,322,199.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Authority did not have fixed income securities at June 30, 2012.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the Authority's interest rate risk. As of June 30, 2012, the Authority's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - CAPITAL ASSETS

The following table provides a summary of changes in capital assets:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Water Distribution System	\$ 7,723,115	\$ 109,723	\$ -	\$ 7,832,838
Buildings	59,431	-	-	59,431
Equipment & Fixtures	346,531	-	-	346,531
Land	306,659	81,446	(32,948)	355,157
Total Capital Assets	<u>\$ 8,435,736</u>	<u>\$ 191,169</u>	<u>\$ (32,948)</u>	<u>\$ 8,593,957</u>
Depreciation	<u>(4,646,811)</u>	<u>(227,593)</u>	<u>-</u>	<u>(4,874,404)</u>
Total Net Capital Assets	<u>\$ 3,788,925</u>	<u>\$ (36,424)</u>	<u>\$ (32,948)</u>	<u>\$ 3,719,553</u>

KETCHUM PUBLIC WORKS AUTHORITY  
 KETCHUM, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012 AND 2011

NOTE D - NOTES PAYABLE PROPRIETARY FUND

A brief description of the outstanding notes payable at June 30, 2012 is set forth below:

USDA, Rural Development loan #91-06 in the original loan amount of \$301,500, interest rate of 5.00%, term of 40 years, monthly installment of \$1,481.00.	\$ 95,542
USDA, Rural Development loan #91-08 in the original loan amount of \$170,000, interest rate of 5.00%, term of 40 years, monthly installment of \$835.00.	53,296
USDA, Rural Development loan #91-10 in the original loan amount of \$40,000, interest rate of 5.00%, term of 40 years, monthly installment of \$197.00.	12,230
USDA, Rural Development loan #91-14 in the original loan amount of \$94,400, interest rate of 5.00%, term of 40 years, monthly installment of \$464.00.	62,302
USDA, Rural Development loan #91-16 in the original loan amount of \$572,000, interest rate of 5.00%, term of 40 years, monthly installment of \$2,809.00.	450,632
USDA, Rural Development loan #91-18 in the original loan amount of \$214,000, interest rate of 5.25%, term of 40 years, monthly installment of \$1,085.00.	170,626
USDA, Rural Development loan #91-20 in the original loan amount of \$244,200, interest rate of 4.50%, term of 40 years, monthly installment of \$1,099.00.	188,074
USDA, Rural Development loan #92-02 in the original loan amount of \$113,300, interest rate of 5.00%, term of 40 years, monthly installment of \$559.70.	6,387
USDA, Rural Development loan #92-04 in the original loan amount of \$48,000, interest rate of 5.00%, term of 40 years, monthly installment of \$237.12.	2,370
USDA, Rural Development loan #92-12 in the original loan amount of \$51,900, interest rate of 5.00%, term of 40 years, monthly installment of \$255.00.	28,646
USDA, Rural Development loan #92-21 in the original loan amount of \$133,600, interest rate of 3.25%, term of 40 years, monthly installment of \$505.00.	109,263
1 <sup>st</sup> State Bank mortgage note in the original amount of \$110,861 to purchase a building, interest rate of 6.25%, term of 180 months, monthly installment of \$950.78. On March 14, 2009, the payments were increased to \$1,050.78.	65,275
Oklahoma State Bank mortgage note in the original amount of \$201,655 to finance a water line extension, interest rate of 4.7%, term of 239 months, monthly installments of \$1,305.39.	189,535
TOTAL	<u>\$ 1,434,178</u>

KETCHUM PUBLIC WORKS AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS  
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Changes in long-term debt is as follows:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
Rural Development	\$ 1,235,639	\$ -	\$ (56,271)	\$ 1,179,368
First State Bank	73,319	-	(8,044)	65,275
Oklahoma State Bank	<u>195,574</u>	<u>-</u>	<u>(6,039)</u>	<u>189,535</u>
	<u>\$ 1,504,532</u>	<u>\$ -</u>	<u>\$ (70,354)</u>	<u>\$ 1,434,178</u>

Following is the anticipated annual debt service amounts for principal payments.

Year Ended October 31	Principal	Interest	Total Payments
2013	\$ 73,976	\$ 68,383	\$ 142,359
2014	68,589	53,645	122,234
2015	72,136	50,098	122,234
2016	75,869	46,365	122,234
2017	79,798	42,436	122,234
2018-2022	288,753	206,532	495,285
2023-2028	293,748	150,712	444,460
2028-2032	308,305	76,922	385,227
2033-2038	160,075	14,913	174,988
2038-2040	<u>12,929</u>	<u>706</u>	<u>13,635</u>
Total	<u>\$ 1,434,178</u>	<u>\$ 710,712</u>	<u>\$ 2,144,890</u>

NOTE E - RESTRICTED ASSETS

USDA RURAL DEVELOPMENT

The Loan Resolution Security Agreements with the USDA Rural Development requires a reserve fund to be funded at 10% of the monthly installment until the balance is equal to the annual installment amount (\$9,527 X 12 = \$114,324). At June 30, 2012, the total balance in the debt service reserve accounts at Oklahoma State Bank, Langley, Oklahoma was \$124,000.

Debt Service Reserve Account	\$124,000
Less: Excess Funds	<u>(9,676)</u>
Net Required Reserve	<u>\$114,324</u>

NOTE F - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority carries commercial insurance for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

KETCHUM PUBLIC WORKS AUTHORITY  
KETCHUM, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

NOTE G - PENSION

Plan Description

The Authority contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Section 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information.

Funding Policy

The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. Authority employees are required to contribute 3.5% of earned compensation. The Authority contributes 16.5% of earned compensation. The Authority's contributions to the Plan for the years ending June 30, 2012, 2011 and 2010 were \$52,674, \$49,681 and \$45,766, respectively, equal to the required contributions for each year

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ralph Osborn", is written in black ink on a light-colored background.

Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
October 11, 2012

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Ketchum Public Works Authority  
Ketchum, Oklahoma

I have audited the financial statements of the business-type activities of Ketchum Public Works Authority as of and for the year ended June 30, 2012 and 2011, which collectively comprise Ketchum Public Works Authority's basic financial statements and have issued my report thereon dated October 11, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Ketchum Public Works Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ketchum Public Works Authority's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Ketchum Public Works Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ketchum Public Works Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.